



United States Senator
Richard Shelby
REPORTS TO ALABAMA



Washington Style Tax Reform

By: Senator Richard Shelby (R-AL)

On November 1, 2005, the President's Tax Reform Panel made their long delayed recommendations for tax reform. While we were hoping for a bold proposal, encompassing fundamental reform, we received a watered down version of the same old Washington style tax reform. Ignoring the plea of every American for a simpler, fairer and less intrusive tax system, the reform panel made few suggestions that would significantly change the tax code.

In January, the President's tax panel undertook the daunting task of providing a roadmap for tax reform. Our tax code is approximately 3.4 million words in length, with another six million words of regulation required to implement the code -- these numbers are mind boggling and make the code itself virtually impossible to understand, much less comply with. Despite the enormous task, the panel attempted to conduct an in-depth review of the tax code through a series of public meetings, receiving testimony from a range of experts. Some witnesses advocated a flat tax, much like the legislation I have introduced in every Congress since 1984, while others suggested a consumption tax, or a European style value-added-tax, and still others suggested more modest reform proposals. Nevertheless, these proposals, if properly packaged, had the potential to construct a complete overhaul of the tax system. Unfortunately, in the end, the tax reform panel chose a modest piecemeal approach that does little to change the code, much less "overhaul" it.

Specifically, the panel recommended two different plans for possible reform. The first is called the "Simplified Income Tax." This proposal seeks to reduce the number of

individual tax brackets from the current level down to four (15%, 25%, 30%, and 33%) while combining the personal exemption and standard deduction into a "family credit" that would amount to \$3,300 for married couples and \$1,650 for single individuals. Finally, the "Simplified Income Tax" proposal would eliminate the deduction for state and local taxes and eliminate the tax on dividends paid to investors by U.S. firms. It would also change the rate of taxation on capital gains to 8.25% and propose to tax interest at the ordinary income rate.

The second plan is referred to as the "Growth and Investment Tax" which also proposes to alter the number of individual tax rates but limits it to three -- 15%, 25% and 30%. Like the panel's other plan, the "Growth and Investment Tax" proposal would repeal the Alternative Minimum Tax, combine the personal exemption and standard deduction into a single "family credit" (\$3,300 for married couples and \$1,650 for singles), and eliminate the deductibility of state and local taxes. However, it does differ in its treatment of dividends, capital gains and interest by taxing them all at a flat 15%.

Both plans propose to consolidate a number of familiar savings vehicles into a "Retirement Savings Plan" and an "Education Savings Plan." The panel also advocates the removal of the popular home mortgage deduction in favor of a credit equal to 15% of the interest paid if your home falls within the Federal Housing Authority regional limits, which range from \$227,000 to \$412,000.

While many of these reforms are promising, they are simply not enough. Consolidating tax brackets, eliminating a few deductions and combin-

ing popular savings programs will not simplify our tax code and it certainly will not make it fairer to all Americans.

My flat tax legislation, S. 1099, would dramatically overhaul the way our taxes are collected. An important component of the flat tax is that it will place more money into the hands of hardworking Americans and allow individuals - not the government - to decide how to best spend their money. After generous standard deductions are subtracted from the sum of wages, salaries and pensions, all taxpayers would be taxed on the remaining amount at the same rate -- 17% when the tax is fully implemented. By taxing only an individual's wages, salaries and pensions, my bill eliminates the double taxation of savings and investment.

The flat tax is not only more equitable than the current income tax, it's also undeniably more simple. Under a flat tax, taxpayers would be able to fit their return on a form the size of a post card. Rather than spending hours pouring over convoluted IRS forms, or resorting to professional tax assistance, the flat tax allows taxpayers to determine their taxes quickly and easily.

While I appreciate the recommendations of the President's Tax Reform Panel, I believe the key word is "recommendations." The President and Treasury Secretary Snow are now tasked with submitting a formal plan to Congress. I am hopeful that they will propose a bold new approach for tax reform, something that will continue to move our economy forward and eliminate the onerous demands of April 15th. Until then, I plan to continue my efforts to move the tax reform agenda forward and achieve a tax system that is simplified, fair and flat.



United States Senator
Richard Shelby
REPORTS TO ALABAMA



Washington Style Tax Reform

By: Senator Richard Shelby (R-AL)

On November 1, 2005, the President's Tax Reform Panel made their long delayed recommendations for tax reform. While we were hoping for a bold proposal, encompassing fundamental reform, we received a watered down version of the same old Washington style tax reform. Ignoring the plea of every American for a simpler, fairer and less intrusive tax system, the reform panel made few suggestions that would significantly change the tax code.

In January, the President's tax panel undertook the daunting task of providing a roadmap for tax reform. Our tax code is approximately 3.4 million words in length, with another six million words of regulation required to implement the code -- these numbers are mind boggling and make the code itself virtually impossible to understand, much less comply with. Despite the enormous task, the panel attempted to conduct an in-depth review of the tax code through a series of public meetings, receiving testimony from a range of experts. Some witnesses advocated a flat tax, much like the legislation I have introduced in every Congress since 1984, while others suggested a consumption tax, or a European style value-added-tax, and still others suggested more modest reform proposals. Nevertheless, these proposals, if properly packaged, had the potential to construct a complete overhaul of the tax system. Unfortunately, in the end, the tax reform panel chose a modest piecemeal approach that does little to change the code, much less "overhaul" it.

Specifically, the panel recommended two different plans for possible reform. The first is called the "Simplified Income Tax." This proposal seeks to reduce the number of individual tax brackets from the

current level down to four (15%, 25%, 30%, and 33%) while combining the personal exemption and standard deduction into a "family credit" that would amount to \$3,300 for married couples and \$1,650 for single individuals. Finally, the "Simplified Income Tax" proposal would eliminate the deduction for state and local taxes and eliminate the tax on dividends paid to investors by U.S. firms. It would also change the rate of taxation on capital gains to 8.25% and propose to tax interest at the ordinary income rate.

The second plan is referred to as the "Growth and Investment Tax" which also proposes to alter the number of individual tax rates but limits it to three -- 15%, 25% and 30%. Like the panel's other plan, the "Growth and Investment Tax" proposal would repeal the Alternative Minimum Tax, combine the personal exemption and standard deduction into a single "family credit" (\$3,300 for married couples and \$1,650 for singles), and eliminate the deductibility of state and local taxes. However, it does differ in its treatment of dividends, capital gains and interest by taxing them all at a flat 15%.

Both plans propose to consolidate a number of familiar savings vehicles into a "Retirement Savings Plan" and an "Education Savings Plan." The panel also advocates the removal of the popular home mortgage deduction in favor of a credit equal to 15% of the interest paid if your home falls within the Federal Housing Authority regional limits, which range from \$227,000 to \$412,000.

While many of these reforms are promising, they are simply not enough. Consolidating tax brackets, eliminating a few deductions and combining popular savings programs will not simplify our tax code and it

certainly will not make it fairer to all Americans.

My flat tax legislation, S. 1099, would dramatically overhaul the way our taxes are collected. An important component of the flat tax is that it will place more money into the hands of hardworking Americans and allow individuals - not the government - to decide how to best spend their money. After generous standard deductions are subtracted from the sum of wages, salaries and pensions, all taxpayers would be taxed on the remaining amount at the same rate -- 17% when the tax is fully implemented. By taxing only an individual's wages, salaries and pensions, my bill eliminates the double taxation of savings and investment.

The flat tax is not only more equitable than the current income tax, it's also undeniably more simple. Under a flat tax, taxpayers would be able to fit their return on a form the size of a post card. Rather than spending hours pouring over convoluted IRS forms, or resorting to professional tax assistance, the flat tax allows taxpayers to determine their taxes quickly and easily.

While I appreciate the recommendations of the President's Tax Reform Panel, I believe the key word is "recommendations." The President and Treasury Secretary Snow are now tasked with submitting a formal plan to Congress. I am hopeful that they will propose a bold new approach for tax reform, something that will continue to move our economy forward and eliminate the onerous demands of April 15th. Until then, I plan to continue my efforts to move the tax reform agenda forward and achieve a tax system that is simplified, fair and flat.